

Audit

Report



OFFICE OF THE INSPECTOR GENERAL

**MANAGEMENT OF LEASED
MODULATORS/DEMODULATORS AT
DOVER AIR FORCE BASE**

Report Number 93-021

November 9, 1992

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The following acronyms are used in this report.

AFB.....	Air Force Base
AFCC.....	Air Force Communications Command
AMC.....	Air Mobility Command
CAPS.....	Consolidated Aerial Port System
CSA.....	Communications Service Authorization
DDN.....	Defense Data Network
DECCO.....	Defense Commercial Communications Office
DISA.....	Defense Information Systems Agency
GTE.....	General Telephone and Electronics
RFS.....	Request For Service
TCO.....	Telecommunications Certification Office
TSR.....	Telecommunications Service Request



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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REPORT
NO. 93-021

November 09, 1992

**MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL
MANAGEMENT AND COMPTROLLER)**

SUBJECT: Audit Report on Management of Leased
Modulators/Demodulators at Dover Air Force Base,
Delaware (Project No. 2RD-0020.01)

Introduction

During the audit of DoD Management of Leased Modulators/Demodulators (Project No. 2RD-0020) at Dover Air Force Base (AFB), Delaware, we found that payments were being made for telecommunications equipment that was no longer in service and that equipment was being leased that should have been purchased. The Air Mobility Command (AMC), formerly the Military Airlift Command, Scott AFB, Illinois, did not issue Request for Service (RFS) documentation to terminate lease payments for 64 limited-distance modulators/demodulators (modems) that had been replaced with DoD-purchased equipment and did not purchase replacements for 6 long-haul modems that were being leased.

In both instances, RFSs and subsequent Telecommunications Service Requests (TSRs) were required to terminate leases. Because of delay in issuing that documentation, more than \$287,000 was needlessly expended for the period February 1990 through June 1992. Further, if AMC terminates leases and purchases modems, DoD could realize a cost avoidance of about \$784,000 during the execution of the FY 1993 through FY 1998 Future Years Defense Program (FYDP). When these matters were brought to AMC management attention, lease payments for the 64 limited-distance modems were terminated. A cost avoidance of about \$660,000 over the FY 1993 through FY 1998 FYDP should result. However, no action was taken to purchase replacements for the 6 long-haul modems. If immediate action is taken to purchase the six replacement modems, the DoD could realize a cost avoidance of about \$124,000 during the execution of the FY 1993 through FY 1998 FYDP.

Objective

Our overall objective was to determine whether DoD Components continue to lease modems rather than purchase modems through a centralized bulk-purchase contract. We also evaluated internal controls applicable to purchasing the modems.

Scope of Audit

We conducted a physical inventory of 70 modems that were leased as part of three long-haul telecommunications circuits identified by Communications Service Authorizations (CSAs) AMSC D 16111 WU, AMSC D 16131 WU, and AMSC D 16179 WU. The data for the 70 modems associated with those CSAs were extracted from the Defense Commercial Communications Office (DECCO) data base as of January 31, 1992. We traced the modems to physical installation locations and verified that the modems existed. We also interviewed Dover AFB personnel to determine whether a lease versus buy analysis was performed. The circuits and modems are components of the Consolidated Aerial Port System (CAPS) telecommunications network managed by the AMC and are located at Dover AFB.

This economy and efficiency audit was made from April 1992 through June 1992. The audit was made in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly, included such tests of internal controls as were considered necessary. The activities we visited or contacted are listed in Enclosure 3.

Internal Controls

The internal control program as it applies to the management of the CAPS network is the responsibility of the communications management function at Headquarters, AMC. We made a preliminary evaluation of applicable internal controls at Dover AFB. Because the responsibility for internal controls for the CAPS network management is not vested with the installation communications management function, this matter will be addressed in our overall report on DoD Management of Leased Modulators/Demodulators.

Background

In March 1988, Department of the Air Force major commands were requested to determine the funds required in FYs 1988, 1989, and 1990 (later revised to FYs 1989 and 1990) to buy out or replace leased telecommunications equipment. The purpose of the request was to initiate an Air Force-wide buy-out program.

Headquarters, Air Force Communications Command (AFCC), implemented the Air Force-wide buy-out program in a memorandum dated April 17, 1989, stating that the major commands should actively search for candidates for the program. The memorandum

identified specific regulations, instructions, and worksheets to be used and requested that the major commands provide Headquarters, AFCC, with a plan to buy out uneconomical leases. Each major command was required to provide a list of leased telecommunications equipment targeted for buy out or replacement. The list was also to include projected purchase dates of equipment, funds required to lease equipment, and potential life-cycle cost savings to be realized from the buy out.

DoD Directive 4640.13, "Management of Base and Long-Haul Telecommunications Equipment and Services," December 5, 1991, requires that DoD Components discontinue telecommunications equipment or services for which a bona fide need no longer exists. Defense Communications Agency (now Defense Information Systems Agency [DISA]) Circular 310-130-1 (the Circular), "Submission of Telecommunications Service Requests," June 4, 1990, provides guidance on the preparation and submission of the RFS and subsequent TSR. Further, the Circular addresses the disposition of telecommunications facilities (e.g., equipment), stating that when facilities are no longer required, they will be reported through established Telecommunications Certification Office (TCO) channels to the appropriate DISA action agency for discontinuation.

Discussion

Equipment leases. In a May 1, 1989, memorandum, Headquarters, AMC, directed unit commanders to maximize the use of the buy-out program for uneconomical equipment leases. The AMC requested that unit commanders determine the current equipment lease posture, prepare a summary of leases converted to purchases, and recommend candidates for buy out.

Extracts from the DECCO data base showed that 70 modems, associated with CSAs AMSC D 16111 WU, AMSC D 16131 WU, and AMSC D 16179 WU, were leased to support three CAPS network circuits. Two of the circuits (16111 and 16179) were routed between Dover AFB and Scott AFB, and the third circuit (16131) was routed between Dover AFB and the Philadelphia, Pennsylvania, International Airport. Of the 70 modems, 64 were limited-distance modems, and 6 were long-haul modems located at either end of the three circuits.

Interviews with communications management personnel disclosed that AMC requested CAPS network users to replace the 64 limited-distance modems leased from the General Telephone and Electronics (GTE) Federal Systems Corporation (formerly Continental Telephone Company Federal Systems) with purchased equipment. Accordingly, Headquarters, Twenty-First Air Force (a subordinate command of the AMC), McGuire AFB, New Jersey, replaced the 64 leased limited-distance modems at Dover AFB with DoD-purchased equipment. However, the six leased long-haul modems were not replaced.

Termination of payments. Our physical inventory at Dover AFB showed that 64 limited-distance modems that were leased under CSAs AMSC D 16111 WU and AMSC D 16179 WU were disconnected in February 1990 and replaced by DoD-purchased equipment. Air Force communications managers told us that initial arrangements for replacement of the modems was made in May 1989. In a memorandum dated February 8, 1990, Headquarters, Twenty-First Air Force, notified GTE that its modems at Dover AFB were no longer in use and were ready for pickup. The memorandum also gave GTE the Government points of contact; a list of each modem by type, serial number, and circuit number; and the location of each modem.

Documents showed, however, that GTE did not pick up the modems. The modems remained in storage for 17 months until July 1991, when Dover AFB personnel shipped the modems back to GTE. But, neither Dover AFB personnel nor AMC communications managers issued an RFS (through the Air Force TCO to the DECCO) to have the modems disconnected and the payments terminated. Finally, even though the 64 modems were replaced in February 1990 and returned to the vendor in July 1991, GTE continued to bill the DoD for the equipment that was no longer in service. Due to the failure of AMC to issue the required RFS for disconnection and the absence of the subsequent Air Force TSR, DECCO continued to pay the service bills through June 1992. We estimated that from February 1990 through June 1992, DECCO needlessly paid GTE more than \$244,000 for modems that were no longer in service.

At a May 6, 1992, exit briefing with the Commander, 1500th Computer Systems Group (a subordinate command of the AMC), we recommended that the AMC initiate immediate action to prepare and issue the necessary RFSSs to terminate the lease payments for the 64 modems that were no longer in service under CSAs AMSC D 16111 WU and AMSC D 16179 WU. The RFSSs to terminate lease payments were prepared on June 17, 1992, by AMC communications personnel and forwarded to the AFCC TCO. Copies of the RFSSs were provided to us. Therefore, no recommendation is made concerning the termination of payments.

Replacement of leased modems. In August 1989, the DECCO awarded the Bulk Modem Contract to Codex Corporation. The contract is a single-vendor requirements contract and is available to communications users within the Continental United States, Alaska, and Hawaii. The contract was awarded to eliminate fragmented procurements of modems and associated telecommunications equipment and services.

We conducted a lease versus buy analysis for six long-haul modems, costing about \$19,800 annually, that were leased under CSAs AMSC D 16111 WU, AMSC D 16131 WU, and AMSC D 16179 WU. Our analysis showed that it was more cost-effective to purchase rather than lease the modems and that from February 1990 through June 1992, the AMC paid unnecessary lease charges of \$43,060. We determined that the purchase price of the modems from the Bulk

Modem Contract was \$4,790, including installation charges and connecting cables. We also determined that recurring maintenance costs would be \$72 annually. If immediate action is taken to purchase the six replacement modems, the AMC could realize a savings of about \$15,000 in the first year. The payback period for the first-year costs would be less than 3 months. On July 9, 1992, we discussed this issue with the Commander, 1500th Computer Systems Group, and with AMC communications managers. We recommended that the AMC initiate immediate action to purchase the modems under CSAs AMSC D 16111 WU, AMSC D 16131 WU, and AMSC D 16179 WU.

Conclusion

As a result of actions taken by AMC to terminate lease payments for 64 modems no longer in service, the DoD could realize savings of about \$660,000 during execution of the FY 1993 through FY 1998 FYDP. If the AMC takes immediate action to issue an RFS to purchase six long-haul modems from the Bulk Modem Contract, the DoD could realize additional savings of about \$124,000 during execution of the same FYDP (Enclosure 1).

During the Audit of DoD Management of Lease Modulators/Demodulators (Project No. 2RD-0020), we will determine whether similar conditions exist at other locations that use the CAPS network managed by the AMC.

Recommendation For Corrective Action

We recommend that the Commander, Air Mobility Command, issue the Requests for Service to terminate leases for the six long-haul modems leased under Communications Service Authorizations AMSC D 16111 WU, AMSC D 16131 WU, and AMSC D 16179 WU, and purchase the long-haul modems from the Bulk Modem Contract maintained by the Defense Commercial Communications Office.

Management Comments

The Department of the Air Force provided comments (Enclosure 2) on October 1, 1992, in response to a draft of this report. Management concurred with the finding and the recommendation and provided estimated completion dates for corrective actions. Management stated that CSAs AMSC D 16111 WU, AMSC D 16131 WU, and AMSC D 16179 WU will be placed on the Air Force Integrated Digital Telecommunications Network (AFNET), which is scheduled to be installed at Dover AFB in September 1992 and that the AFNET will replace the leased modems with purchased modems. Management also concurred with the FY 1993 through FY 1996 portions of the monetary benefits identified in the draft report, but nonconcurred with the remaining budgetary impact. Management stated that the \$738,859, (this figure was transposed in management's comments; the draft audit report stated \$783,859) potential monetary benefit is based on the execution of the

FY 1993 through FY 1998 FYDP. Management also stated that the leases on the modems would have expired on April 29, 1996, and would not have been renewed; therefore, a potential monetary benefit of \$502,956 is more realistic.

Audit Response To Management Comments

The Air Force comments were responsive to the finding and the recommendation. Regarding the potential monetary benefits, there is no assurance that billings and payments would stop in April 1996 when the leases expire. CSAs for telecommunications equipment leases are issued by DECCO only when required TSRs are received from the TCO. After the leases expire, the CSAs automatically renew for 30-day increments almost indefinitely or until another TSR is received from the TCO for termination. DECCO does not have the authority to terminate a telecommunications equipment lease. Therefore, until a TSR for termination is received by DECCO, the Air Force will continue to pay for the service.

In prior audits we found repeated cases in which vendors continued to bill for telecommunications services and DoD continued to pay the bills either when there was no valid requirement for the service or when the telecommunications equipment did not exist. Consequently, DoD continued to expend funds unnecessarily because communications managers had not provided RFSSs and subsequent TSRs to DECCO for lease terminations. Accordingly, we believe that the potential monetary benefits of \$783,859 applicable to the leased telecommunications equipment at Dover AFB are realistic.

We ask that the Air Force reconsider its position on the monetary benefits and provide further comments within 30 days of the date of this report.

The courtesies extended to the audit staff are appreciated. If you have any questions on this report, please contact Mr. Robert M. Murrell, Program Director, at (703) 692-2945 DSN 222-2945) or Mr. Ronald M. Nelson, Project Manager, at (703) 692-2888 (DSN 222-2888). Copies of the final report will be distributed to the activities listed in Enclosure 4.



Robert J. Lieberman
Assistant Inspector General
for Auditing

cc:

Secretary of the Air Force
Deputy Assistant Secretary of Defense (Defense-Wide Command,
Control, and Communications)
Director, Defense Information Systems Agency

SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

(All figures rounded to nearest dollar)

<u>Program</u>	<u>Element No.</u>	<u>Element Title</u>	<u>FY 1993</u>	<u>FY 1994</u>	<u>FY 1995</u>	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>6-Year Total</u>
<u>Recurring Savings (Operation and Maintenance)</u>									
Intelligence and Communications	0303126F	Long-Haul Communications	\$101,028	\$104,352	\$107,868	\$111,547	\$115,473	\$119,538	\$659,806 ^{1/}
Intelligence and Communications	0303126F	Long-Haul Communications	<u>19,800</u>	<u>20,451</u>	<u>21,141</u>	<u>21,862</u>	<u>22,631</u>	<u>23,428</u>	<u>129,313</u> ^{2/}
Total Recurring Savings			<u>\$120,828</u>	<u>\$124,803</u>	<u>\$129,009</u>	<u>\$133,409</u>	<u>\$138,104</u>	<u>\$142,966</u>	<u>\$789,119</u>
<u>Recurring Costs (Operation and Maintenance)</u>									
Intelligence and Communications	0303126F	Long-Haul Communications	\$ (72)	\$ (74)	\$ (77)	\$ (80)	\$ (82)	\$ (85)	\$ (470) ^{3/}
<u>Nonrecurring Costs (Operation and Maintenance)</u>									
Intelligence and Communications	0303126F	Long-Haul Communications	<u>(4,790)</u>						<u>(4,790)</u> ^{4/}
Net Recurring Savings (Funds put to better use)			<u>\$115,966</u>	<u>\$124,729</u>	<u>\$128,932</u>	<u>\$133,329</u>	<u>\$138,022</u>	<u>\$142,881</u>	<u>\$783,859</u>

Footnotes:

- 1/ Using the FY 1993 recurring cost (\$101,028) for the base year, we applied the established DoD inflation factors (3.29 percent for FY 1994, 3.37 percent for FY 1995, 3.41 percent for FY 1996, 3.52 percent for FY 1997, and 3.52 percent for FY 1998) for the next 5 fiscal years, calculating the total recurring costs (to terminate payment for 64 leased modems) for the Future Years Defense Program at \$659,806.
- 2/ Using the FY 1993 recurring cost (\$19,800) for the base year, we applied the established DoD inflation factors (3.29 percent for FY 1994, 3.37 percent for FY 1995, 3.41 percent for FY 1996, 3.52 percent for FY 1997, and 3.52 percent for FY 1998) for the next 5 fiscal years, calculating the total recurring costs (to continue leasing six modems) for the Future Years Defense Program at \$129,313.
- 3/ Using the FY 1993 recurring cost (\$72) for the base year, we applied the established DoD inflation factors (3.29 percent for FY 1994, 3.37 percent for FY 1995, 3.41 percent for FY 1996, 3.52 percent for FY 1997, and 3.52 percent for FY 1998) for the next 5 fiscal years, calculating the total recurring cost (maintenance costs for six modems) for the Future Years Defense Program at \$470.
- 4/ Using the FY 1993 nonrecurring costs (\$4,790) for the base year, we calculated the total nonrecurring costs (for purchase and installation of six modems) for the Future Years Defense Program at \$4,790.

Department of the Air Force Comments



DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON, D.C. 20330

01 OCT 1992

MEMORANDUM FOR DIRECTOR, READINESS AND OPERATIONAL SUPPORT
OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

SUBJECT: Draft Audit Report on Management of Leased Modulators/Demodulators at
Dover Air Force Base, Delaware (Project No. 2RD-0020.01)
- INFORMATION MEMORANDUM

We concur with the findings in the subject audit report that AMC did not take action to issue Request for Service documentation to terminate lease payments for 64 limited-distance modems that had been replaced with DOD-purchased equipment. We also concur that AMC did not purchase replacements for six long-haul modems that were being leased at almost four times the purchase price.

We disagree, however, with the proposed potential monetary benefit (PMB) of \$738,859 as stated in the report. The \$738,859 PMB is based on a 6-year total extending through FY 98. The lease on the modems would have expired on 29 Apr 96 and would not have been renewed; therefore, a PMB of \$502,956 is more realistic.

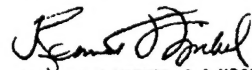
Based upon the findings in the audit, HQ AMC has taken the following corrective and proactive actions:

a. Circuits AMSC D 16111 WU, AMSC D 16131 WU, and AMSC D 16179 WU will be placed on the Air Force Integrated Digital Telecommunications Network (AFNET) currently scheduled to be installed at Dover AFB in Sep 92. AFNET will replace the leased modems with purchased modems. This action is more expeditious than that discussed under the "Recommendation For Corrective Action" in the report.

b. Using the Defense Commercial Communications Office database, AMC has compiled a list of all AMC leased communications equipment. This list will be used to conduct an inventory to determine if leased equipment is still in place and, if so, AMC will take action to terminate the leases (estimated completion date: Sep 93).

The Air Force point of contact for this audit is Major Harper, AF/SCMN, DSN 225-6068.

cc: SAF/FMPF
7CG/GADE
AF/LGMM
AMC/SC
AFTCO/CD


KENNETH F. MICKEL, Col, USAF
Director of Mission Systems
DCS/Command, Control,
Communications, and Computers

ENCLOSURE 2

ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Office of the Assistant Secretary of Defense (Command,
Control, Communications and Intelligence), Washington, DC

Department of the Air Force

Headquarters, Air Mobility Command, Scott Air Force Base, IL
Dover Air Force Base, DE
Headquarters, Air Force Communications Command,
Scott Air Force Base, IL

Defense Agencies

Defense Information Systems Agency, Washington, DC
Defense Commercial Communications Office,
Scott Air Force Base, IL
Telecommunications Management and Services Office,
Scott Air Force Base, IL

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Senate Committee on Armed Services
Senate Subcommittee on Communications, Committee on Commerce,
Science, and Transportation
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Subcommittee on Telecommunications and Finance, Committee
on Energy and Commerce
House Committee on Government Operations
House Subcommittee on Legislation and National Security,
Committee on Government Operations

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